

Message Text

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ACTION EB-11

INFO OCT-01 EUR-25 ISO-00 SP-03 AID-20 NSC-07 RSC-01

CIEP-02 TRSE-00 SS-20 STR-08 OMB-01 CEA-02 CIAE-00

COME-00 FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12 LAB-06

SIL-01 L-03 H-03 PA-04 PRS-01 USIA-15 FSE-00 ABF-01

DRC-01 /167 W

----- 073518

P 151558Z APR 74

FM AMEMBASSY OTTAWA

TO SECSTATE WASHDC PRIORITY 3190

UNCLAS OTTAWA 1068

E.O. 11652: N/A

TAGS: EFIN, CA

SUBJECT: BANK RATE INCREASED TO 8.25 PERCENT.

1. BANK OF CANADA GOVERNOR GERALD K. BOUEY ANNOUNCED EASTER SUNDAY APRIL 14 THAT, EFFECTIVE APRIL 15, BANK RATE WOULD BE INCREASED BY ONE FULL PERCENTAGE POINT TO 8.25 PERCENT. THE RISE MARKS THE SIXTH INCREASE IN THE PAST YEAR, THE LARGEST SINGLE INCREASE SINCE JANUARY 1968, AND PLACES BANK RATE AT AN ALL-TIME HIGH. THE PREVIOUS RECORD LEVEL OF 8 PERCENT WAS IN EFFECT FROM JULY 1969 TO MAY 1970. THE RATE NOW STANDS 74 PERCENT HIGHER THAN ONE YEAR AGO.

2. PRESS REPORTS QUOTE BOUEY AS STATING THAT THE LATEST INCREASE WAS PROMPTED BY THE NEED TO EXERCISE CONTROL OVER THE MONEY SUPPLY IN THE FACE OF RISING INFLATION. "THE RECENT SUBSTANTIAL UPWARD ADJUSTMENT OF MARKET INTEREST RATES IN CANADA, THE U.S. AND EURODOLLAR MARKETS..." ALSO HELPED PRODUCE THE INCREASE. BOUEY WAS ALSO REPORTED AS SAYING THAT THE BANK OF CANADA WANTS TO PROVIDE SUFFICIENT MONETARY GROWTH TO ACCOMMODATE ECONOMIC EXPANSION WHILE USING A HIGHER BANK RATE TO BATTLE INFLATION.

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3. FINANCIAL STATISTICS JUST RELEASED BY THE BANK OF CANADA SHOW THAT THE MONEY SUPPLY, SEASONALLY ADJUSTED, ROSE BY 20 PERCENT IN THE TWELVE MONTHS ENDING MARCH 31. THE DATA ALSO INDICATED THAT DURING THE FIRST QUARTER OF 1974, THE MONEY SUPPLY (SEASONALLY ADJUSTED AT ANNUAL RATES) ROSE BY 25 PERCENT. THESE RATES ARE CLEARLY WELL BEYOND THE ECONOMY'S RATE OF GROWTH IN MONEY TERMS.

4. IN ADDITION TO CONCERN OVER MONEY ESUPPLY EXPANSION, THE BANK'S ACTION WAS ALSO PROBABLY INFLUENCED BY A NEW SURGE IN CREDIT EXPANSION. AFTER INCREASING BY 25 PERCENT DURING 1973, CHARTERED BANK GENERAL LOANS (SEASONALLY ADJUSTED AT ANNUAL RATES) ROSE BY ONLY ABOUT 12 PERCENT IN BOTH JANUARY AND FEBRUARY. IN MARCH, HOWEVER, THE RATE OF EXPANSION SOARED TO 28 PERCENT. THE UPWARD ADJUSTMENT IN CHARTERED BANK PRIME RATES (CURRENTLY 9.50 PERCENT) THAT IS EXPECTED TO FOLLOW ANNOUNCEMENT OF THE NEW BANK RATE SHOULD HELP CURB THIS EXCESSIVE EXPANSION IN BANK CREDIT.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: PRESS COMMENTS, INTEREST RATES, BANKS
Control Number: n/a
Copy: SINGLE
Draft Date: 15 APR 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974OTTAWA01068
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D740086-0825
From: OTTAWA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740442/aaaabltly.tel
Line Count: 80
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EB
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators:
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: kellerpr
Review Comment: n/a
Review Content Flags:
Review Date: 29 APR 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <29 APR 2002 by kellerpr>; APPROVED <29 APR 2002 by kellerpr>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: BANK RATE INCREASED TO 8.25 PERCENT.
TAGS: EFIN, CA, BANK OF CANADA, (BOUEY, GERALD K)
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005